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2008/03/03 :  
CIA-RDP85T00875R00170003

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CIA/DEL/IM 72-61

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DIRECTORATE OF  
INTELLIGENCE

# Intelligence Memorandum

*The Proposed Japanese-Soviet Tyumen' Development Venture*

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ER IM 72-61  
April 1972

Copy No.

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**CENTRAL INTELLIGENCE AGENCY**

**Directorate of Intelligence**

**April 1972**

**INTELLIGENCE MEMORANDUM**

**THE PROPOSED JAPANESE-SOVIET TYUMEN'  
DEVELOPMENT VENTURE**

**Introduction**

1. In recent months, Moscow has stepped up efforts to kindle Japanese interest in participating in the development of extensive petroleum resources in the Tyumen' region of West Siberia. The Soviets are seeking from the Japanese up to one-third of the estimated \$3 billion necessary to expand oil production in West Siberia and extend a pipeline from these fields across about two-thirds of the USSR to the Sea of Japan. This memorandum reviews recent developments in these negotiations and analyzes the economic and political pros and cons each side must weigh before an agreement can be reached.

**Discussion**

**Tyumen': One of Many Siberian Proposals**

2. The Tyumen' oil venture is one of the many joint Soviet-Japanese Siberian development schemes that have been discussed over the past decade. For years, Moscow has sought to attract Japanese capital to exploit Siberia's abundant but remote oil, natural gas, coal, metal, and timber resources, which Japan requires in growing quantities. Most major projects require considerable investment not only in plant and equipment but also in transportation facilities and other infrastructure. Because of higher priority demands for investment capital elsewhere and the high cost of Siberian projects, plans for developing Siberia have lagged.

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**Note:** This memorandum was prepared by the Office of Economic Research and coordinated within the Directorate of Intelligence.

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3. The magnitude of Moscow's large capital needs has been a major deterrent to Japanese participation. To date, Japan has participated in only three relatively small-scale schemes. Two of these involved developing Siberian timber resources at a total cost of about \$185 million. The third involves the expansion of the Soviet Pacific port of Vrangeli' with an \$80 million Japanese credit. Nevertheless, the lure of abundant resources in nearby Siberia has held the interest of the Japanese, who have continued to await more flexibility on the part of Moscow.

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#### Soviet Considerations

5. Since the first of the year, Moscow has stepped up its efforts to encourage Japanese participation in the project. Soviet Ambassador Troyanovsky has played a prominent role in promoting the project and it was the principal point on the agenda of the annual meeting of the Japanese-Soviet Economic Cooperation Committee last February. As an inducement to the Japanese, Moscow has been hinting at concessions on financing and has left the door open for some participation by US firms. US participation would mean an additional source of financing and, more important, provide a source of needed advanced technology. In holding out the prospect of US participation, Moscow may also be seeking to play on Japanese apprehensions that the United States will move ahead of Japan in developing economic ties with the USSR. From Tokyo's point of view, US participation would provide a better guarantee that the Soviets would meet their commitments and would provide an additional deterrent to any adverse reaction by Peking.

6. The Soviet initiative reflects its emphasis on expanding Tyumen' oil production. As oil production levels off in the Urals-Volga region (the major producing area of the USSR), Moscow looks to Tyumen' to take up the slack. The current plan calls for output of crude oil in Tyumen'

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to reach about 2.5 million bpd in 1975, almost triple the level in 1971. During 1971-75, about two-thirds of the increase in total Soviet crude oil production is to come from Tyumen'. Almost half of the Tyumen' production of crude in 1975 probably will come from the large Samotlor field alone. By 1980, production from Tyumen' is expected to reach 4.6 million to 5.2 million bpd and may account for some 40% of total Soviet oil production.

7. One of Moscow's main objectives in soliciting Japanese participation is to obtain equipment and materials for pipeline construction -- particularly large-diameter steel pipe. These materials are in short supply in the USSR, and other higher priority demands for pipelines would likely delay the construction of the Irkutsk-to-Nakhodka line for some time if the Soviets were to go it alone. In addition, Moscow probably desires Japanese materials to upgrade the existing pipeline from the Tyumen' fields to Irkutsk. At present, only a small portion of this line is made up of large-diameter pipe. Soviet planners have admitted that increased volumes of Tyumen' crude would have to be shipped to Irkutsk by rail because the existing pipeline is now operating at capacity. Although the Soviets intend to develop the Tyumen' fields and construct a pipeline to Nakhodka whether or not they receive Japanese aid, the project could be completed much sooner with Japanese participation.

8. Although cost information is not available, exports of Tyumen' crude oil to Japan via the projected pipeline are likely to make good economic sense for the Soviets. Assuming 6 years for construction with interest on the Soviet debt compounding at 6% to 7% per annum, the USSR could fully amortize its loan in about 3 to 4 years after oil started to flow. Once the debt is paid off, the Soviets would earn at least \$700 million a year from Tyumen' crude at current prices. Last year, Soviet exports to hard currency countries totaled about \$2.3 billion, of which about \$650 million was oil. Soviet oil exports to Western Europe from Tyumen' -- over about the same distance as to Nakhodka -- are also regarded as profitable.

#### The Japanese Position

9. Ultimately, whether or not the Japanese participate in the construction of the Irkutsk-Nakhodka pipeline will depend on a political decision in Tokyo to permit the Export-Import Bank financing and credit guarantees which are necessary for such a large undertaking. Japanese businessmen who would profit from the venture have been the most enthusiastic about Soviet overtures. These include manufacturers of pipe and other industrial goods to be used in constructing the pipeline and trading companies specializing in Soviet-Japanese trade. The Japanese government

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and some businessmen, however, have many doubts about the project's economic feasibility. In February, at the annual meeting of the Japanese-Soviet Economic Cooperation Committee, the Soviets failed to present sufficient information to allay Japanese concern about the adequacy of Tyumen' oil reserves. Both parties agreed that a Japanese technical team would visit the Tyumen' fields in May for on-site inspection.

10. Moreover, the Japanese are concerned about the technical problems of oil development in Tyumen' resulting from extreme weather and geographic conditions. The area is covered with permafrost, although not continuously, is snow and icebound for six months each year, and is flooded in the spring and summer months to such an extent that normal oilfield operations cannot be continued. About three-fourths of the Samotlor field is covered with swamps and lakes, requiring the drilling of a number of wells on man-made islands or platforms (cluster drilling) and the use of extensive directional drilling. Such techniques have not been mastered by Soviet drillers to date. Although most of the deposits are located at depths of 5,000 to 7,000 feet, an additional 3,000 feet of horizontal drilling is often required to reach the oil because of platform locations. This effort taxes the capability of Soviet turbodrills to its utmost, as they are difficult to control for precision in drilling slant wells. Because of the swampy conditions, the ancillary automated operations required at the well site -- pipeline gathering systems, storage tanks, pumping equipment for water injection, and the like -- are complicated and expensive to install. Large amounts of water from surrounding formations are required for injection to maintain formation pressures in these fields. This water, however, is obtained from rather shallow depths, and there is a real danger that this procedure could result in the ground settling below the water level of surrounding swamps and lead to flooding of many producing installations.

11. The Japanese also are concerned about the quality of Tyumen' oil. According to Soviet data, the oil ranges in sulfur content from 0.8% to 1.6%, which was higher than the Japanese previously expected. The Soviets indicated, however, that they will be able to keep the average sulfur content of oil exported to Japan down to about 1%. Although this sulfur content is lower than most oil Japan now imports, it is well above that of oil coming from Indonesia, which is Japan's most rapidly growing crude supplier. The Japanese want low-sulfur crude because of a growing concern over pollution.

12. Japan's role in organizing and carrying out the project is likely to be another area of disagreement. The Soviets, who have as much experience as anyone in laying pipeline, do not envision the Japanese drawing up plans for the project or assisting in carrying it out. Indeed the

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Soviets have resisted providing details on the project, claiming it was unnecessary because Japanese participation would be confined to supplying and financing materials. Tokyo, however, with such an extensive capital commitment, is unlikely to accept such a passive role.

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Political Considerations

14. Beyond economic advantages, the USSR could also reap significant political gains from the venture. Soviet emphasis on the Tyumen' project is part of Moscow's broader attempt over the past year or so to improve its relations with Japan significantly, in response to the improvement in Washington-Peking relations. Moscow hopes its overtures will counter the upsurge in Japanese interest in expanding economic and political contacts with Peking. The Soviets undoubtedly hope that establishment of a closer Japanese-Soviet economic relationship will enhance Russian influence in Tokyo at the expense of that of the United States and the People's Republic of China (PRC).

15. For Japan, however, political ramifications are not as clear cut. Tokyo fears that the project could seriously complicate its hopes for upgrading relations with the PRC. The PRC is concerned because the pipeline would improve Soviet petroleum supply along the Sino-Soviet border and significantly augment its logistic support for its Far Eastern naval forces. One leading foreign affairs analyst in Tokyo believes that aiding the pipeline's completion would "mean that this country (Japan) is taking sides with the Russian policy of containing China." Tokyo is anxious not to offend Peking. On the other hand, it also wants to improve relations with Moscow, with a view to concluding a peace treaty with the USSR and regaining the Northern Territories. The project could become, at least implicitly, a Japanese asset for bargaining with the Soviets on political matters.

16. The government's position is further complicated by the fact that the Tyumen' issue has become a forum for the maneuvering of would-be successors to Prime Minister Sato and for the perennial competition among

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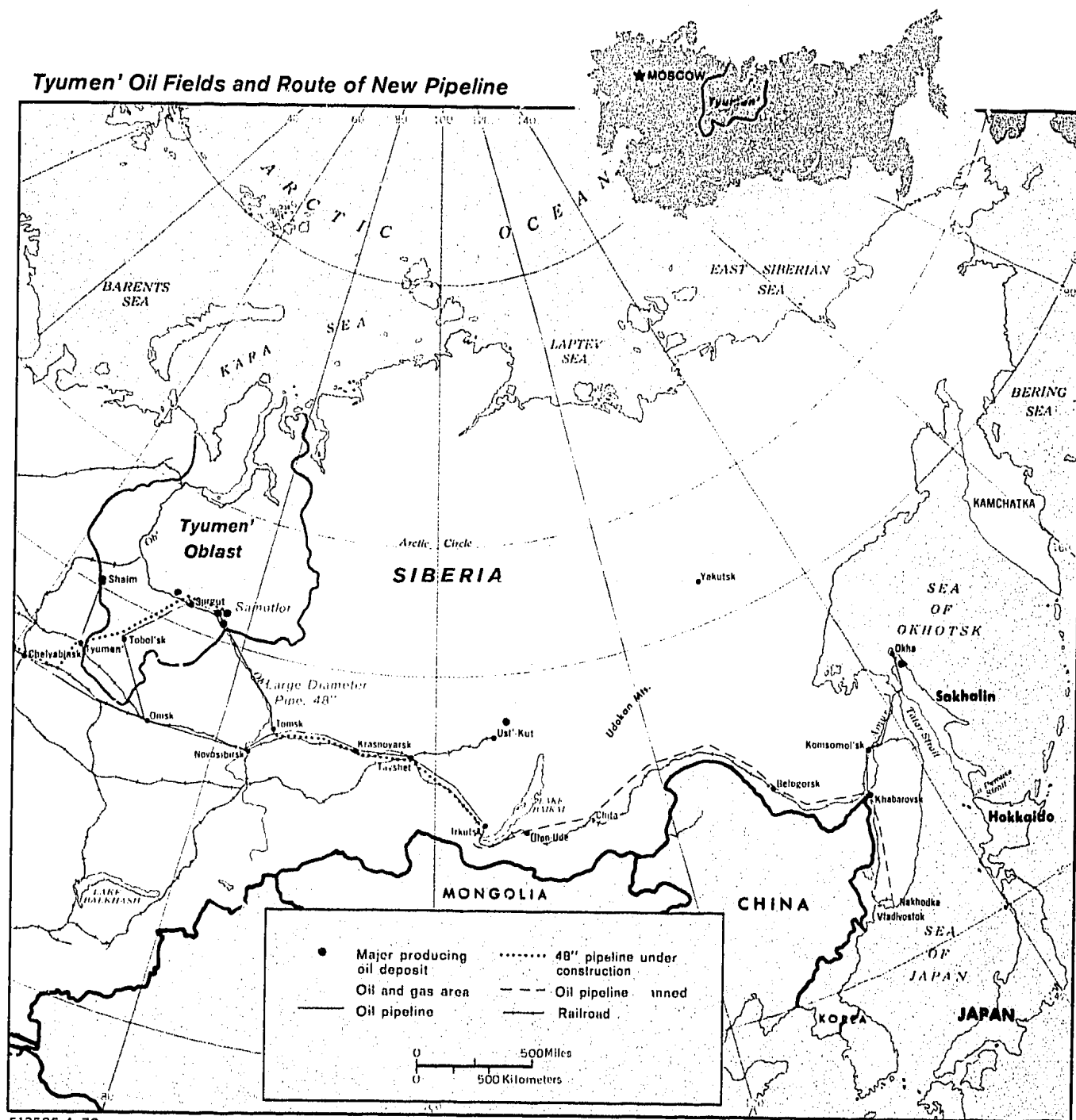
ministries. Kakuei Tanaka, lacking adequate big business financing for his prime ministerial bid and heading the sales-oriented Ministry of International Trade and Industry (MITI), has sought to project a positive government attitude toward participation, championing the interests of the politically powerful industrial community. Takeo Fukuda, compelled as Minister of Foreign Affairs to weigh carefully the potential political repercussions, is adopting a more cautious approach and is attempting to stalemate any forward moves by Tanaka. Within the Ministry of Finance, overzealous backers of its leader Mikio Mizuta issued early in March an unjustifiably optimistic account of Tokyo's consideration of official funding for the project to steal some of the limelight from Mizuta's cabinet colleagues.

**Conclusions**

17. The USSR, which eventually plans to carry out the oil pipeline project on its own if necessary, has little to lose and much to gain from Japanese participation. Japan, on the other hand, is a long way from being convinced that the project's advantages outweigh its many risks. The Japanese have alternative sources of oil supply but they are trying hard to diversify them. In part, they wish to limit the bargaining power of Persian Gulf suppliers, who account for about 85% of Japan's oil imports and have been raising prices of crude. In the final analysis, however, Japan's overriding consideration probably will be political. The project's political feasibility will turn largely on Tokyo's assessment of the effect the project will have on relations with Peking as well as Moscow.

18. Even if an agreement in principle can be reached -- which is far from certain -- it probably would be many years before oil actually started flowing. Working out the technical and financial details of the contract alone could take considerable time. For example, the basic contract for the second timber deal, only a \$50 million venture, was finally signed last December, almost two and one-half years after the agreement in principle was initialed. Once the oil pipeline is under way, it probably would take at least another six years to complete.

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